

Message Text

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TO USMISSION OECD PARIS PRIORITY

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TAGS: ECON, OECD, UK

SUBJECT: EDRC ANNUAL REVIEW OF UK

REF: OECD 1614, EDR(75)1

1. WE AGREE WITH LINE OF QUESTION SUGGESTED BY MISSION IN
PARA 7 REFTEL. FOLLOWING COMMENTS AND QUESTIONS BASED
ON REFDOK ARE OFFERED:

2. AS REFTEL COMMENTS, EXCHANGE RATE ASSUMPTIONS IN REFDOK
SEEM OPTIMISTIC. WE UNDERSTAND EXCHANGE RATE ISSUE IS
SENSITIVE, BUT DISCUSSION OF EXTERNAL DEFICIT PARA 56 REFDOK
INCLUDES NO MENTION OF EXCHANGE RATES AT ALL. IN OECD
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FORECAST OF CURRENT ACCOUNT DEFICIT OF \$6.5 TO 7 BILLION,

WHAT TRADE WEIGHTED EXCHANGE RATE WAS USED IN CALCULATIONS?
DO UK REPS AGREE WITH THIS FORECAST? TRADE WEIGHTED
EXCHANGE RATE WAS DOWN ABOUT 3 IN PAST THREE MONTHS. DO
PROJECTIONS INCLUDE ASSUMPTION CURRENT RATE WILL BE STABLE
OVER NEXT YEAR?

3. PARA 46 REFD0C ESTIMATES THAT SAVING RATIO IS EXPECTED
TO FALL. DO OECD AND UK MODELS INCLUDE WEALTH EFFECTS IN
PROJECTIONS OF SAVINGS RATIO? DECLINE OF STOCK MARKET AND
OTHER SOURCES OF WEALTH SHOULD HAVE SOME EFFECT OF REDUCING

CONSUMPTION AND INCREASING SAVING. IF EXCLUDED, WOULD
INCLUSION OF WEALTH EFFECT HAVE SIGNIFICANT IMPACT ON
PROJECTION OF FALL IN SAVINGS RATIO?

4. REFD0C DOES NOT INCLUDE DISCUSSION OF INVENTORIES AND
STOCKS. WHAT INFLUENCE ARE CHANGES IN THIS AREA APT TO
HAVE ON OVERALL OUTLOOK FOR COMING YEAR?

5. REFD0C HAS LITTLE DISCUSSION OF IMPACT ON TOTAL INVEST-
MENT OF GOVERNMENT INVESTMENT IN AREAS OF GOVERNMENT
GRANTS, SPECIAL LOANS, OR PARTICIPATION THROUGH NATIONAL-
IZATION. CAN MEANINGFUL ESTIMATES BE MADE OF THE IMPACT
OF THESE ACTIONS ON OVERALL INVESTMENT?

6. PARAS 33-34 OF REFD0C MENTION "SUCCESS" OF SUPPLEMENTAL
DEPOSIT SCHEME TO LIMIT BANKS' INTEREST-BEARING STERLING
LIABILITIES BY QUANTATIVE GUIDELINES. WE WONDER,
HOWEVER, HOW SUCCESSFUL THIS HAS BEEN SINCE BANKS ARE WELL
BELOW THEIR CEILINGS. WOULD DEPOSITS NECESSARILY BE
MUCH HIGHER IN ABSENCE OF THE SCHEME?

7. PARA 53 STATES IT WOULD SEEM POSSIBLE TO AIM AT AN
INCREASE IN PRICES AND WAGES OF 9 AND 12 PERCENT,
RESPECTIVELY, IN 1975. IS SUCH A RANGE REALLY CONCEIVABLE
IN VIEW OF RECENT FIGURES WHICH SHOW WAGES UP 28.5 PERCENT
IN 1974?

8. WE WOULD BE INTERESTED OF COURSE IN ANY INDICATION
OF NATURE AND MAGNITUDE PROSPECTIVE UK PUBLIC SECTOR
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BORROWING. KISSINGER

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